



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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Transmitted via e-mail

November 23, 2009

Mr. Robert Ambroselli, Acting Director  
California Department of Corrections and Rehabilitation  
Division of Adult Parole Operations  
1515 S Street, Suite 212 North  
Sacramento, CA 95814

Dear Mr. Ambroselli:

**Engagement Termination Letter—California Department of Corrections and Rehabilitation, Division of Adult Parole Operations, Limited Fiscal Compliance Evaluation**

The Department of Finance, Office of State Audits and Evaluations (Finance), is terminating work on the Limited Fiscal Compliance Evaluation engagement effective immediately.

In accordance with Government Code Section 13070, the Department of Finance, Office of State Audits and Evaluations (Finance), initiated a limited fiscal compliance evaluation of the California Department of Corrections and Rehabilitation, Division of Adult Parole Operations, (Department). The Department is responsible for fiscal compliance with state codes and regulations and ensuring effective internal controls. Our responsibility was to report the results of the evaluation.

The evaluation was to be conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain sufficient, appropriate evidence to support our conclusions.

Finance outlined the engagement in a letter dated March 13, 2009 and held an entrance conference on March 17, 2009. Since the entrance conference, Finance started fieldwork, but has not been able to initiate testing procedures. Therefore, Finance will terminate work immediately and will not issue a report as stated in the engagement letter. The circumstances that precluded Finance from continuing the engagement were the Department's:

- Inability to provide detail expenditure reports necessary to conduct the evaluation.
- Inability to provide account expenditure reconciliations against the State Controller's (SCO) control accounts.
- Untimely response to General Ledger (GL) detail expenditure report requests.

The Department's management is responsible for establishing and maintaining an effective system of internal accounting and administrative controls to ensure proper accountability over government funds. Management is also responsible for overseeing activities conducted within the Department. An effective system of internal accounting and administrative controls provide reasonable assurance that the Department's assets are safeguarded, accounting data are accurate and reliable, operations run efficiently, and prescribed policies and procedures are

followed. Although we are not issuing a report, preliminary procedures identified the following observations requiring the Department's immediate attention.

*Significant Control Deficiencies*

- *SCO reconciliations are not current and timely prepared.* We requested to view the Department's monthly reconciliations of appropriations and special accounts to the SCO's records. The Department stated it was currently working on the reconciliations and could not provide them as requested. There is a \$26 million unreconciled difference between the GL and SCO's May 2009 Payroll Expenditure Report.
- *There is no review of bank draft authorization forms.* Accounting does not review the forms or review the signatures on cashed bank drafts for propriety.
- *There is no reconciliation between the Parolee Automated Cash Assistance Tracking System (PACATS) and the GL.* The Department estimates a \$40,000 to \$100,000 unreconciled difference between the GL and PACATS.
- *Accounting does not monitor outstanding bank drafts issued to Parole units.*
- *Bank draft procedures do not specify how often the Unit Supervisor should monitor the PACATS data postings.*
- *There is a system application control deficiency.* The accounting system does not have an application control to prevent staff from entering inappropriate charge codes not related to their respective budget program.
- *There is no management monitoring of employee salary advances.* Employee salary advance schedules are maintained by Department analysts and not recorded in the Department's accounting system or reviewed by management.

These control deficiencies negatively impact the reliability of accounting reports, management's confidence in the system generated reports, and management's ability to make appropriate business decisions, control Department costs, and maintain accountability of government funds. In addition, these deficiencies indicate a significant weakness in the effectiveness and reliability of the Department's internal accounting and administrative controls, and the control environment.

We appreciate the Department's assistance and cooperation. If you have any questions, please contact Susan M. Botkin, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,



David Botelho, CPA  
Chief, Office of State Audits and Evaluations

cc: On following page

cc: Mr. Matthew Cate, Secretary, California Department of Corrections and Rehabilitation  
Mr. Brett Morgan, Chief of Staff, California Department of Corrections and Rehabilitation  
Mr. Lee Seale, Deputy Chief of Staff, California Department of Corrections and Rehabilitation  
Ms. Mary Fernandez, Undersecretary of Administration, California Department of  
Corrections and Rehabilitation  
Mr. Scott Kernan, Undersecretary of Operations, California Department of Corrections and  
Rehabilitation  
Mr. Timothy Gilpin, Deputy Director Accounting, California Department of Corrections and  
Rehabilitation